

## Message Text

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PAGE 01 MANILA 00341 091049Z

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ACTION EA-06

INFO OCT-01 SS-14 ISO-00 EB-03 INR-07 L-01 RSC-01 SP-02

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P 090624Z JAN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9670

C O N F I D E N T I A L MANILA 0341

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E.O. 11652: GDS

TAGS: ETRD, RP

SUBJECT: COTTON CONTRACTS

REF: A. STATE 4070

B. MANILA 0340

1. BY NOW YOU WILL HAVE SEEN OUR MANILA 0340 WHICH GIVES THE CURRENT STATE OF PLAY AND POSES SOME ISSUES WHICH MAKE USG ABILITY TO FULLY MEET U.S. COTTON EXPORTER PROBLEM OF OVERDUE L/CS HIGHLY QUESTIONABLE. WE WOULD LIKE TO UNDERTAKE WITH DEPARTMENT A REAPPRAISAL OF OUR ATTACK ON THIS PROBLEM IN LIGHT REFTELS AND HIGH PREDICTABLE FUTURE DEVELOPMENTS THEY PORTEND.

2. FOR STARTERS WE FEEL THAT THE APPROACH PROVIDED IN OUR CURRENT INSTRUCTIONS IS FOREDOOMED. WHILE FOR A TIME IT APPEARED WORTHWHILE TO PURSUE MERE COMPLIANCE WITH CONTRACTS AS MATTERS OF GOOD FAITH AND RECIPROCITY, SEVERAL FACTORS UNDERMINE THAT PREMISE PER SE. AS INDICATED REF B, THE MARKET CURRENTLY AND FORSEEABLY WILL NOT SUPPORT IMPORTS AT THE RATES CONTEMPLATED BY EARLIER ARRANGEMENTS, AND IT IS UNREALISTIC TO EXPECT THAT THE PHILIPPINE GOVERNMENT OR THE MILLS WILL BUILD SUCH LARGE INVENTORIES ONLY TO FULFILL CONTRACTS. MOREOVER, THE WILLINGNESS OF SOME, IF NOT ALL U.S. SUPPLIERS TO TRY EITHER TO

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PAGE 02 MANILA 00341 091049Z

ENHANCE THEIR SALES OR CUT THEIR LOSSES BY OFFERING NEW

DEALS GREATLY REDUCES THE EFFECTIVENESS, IF NOT THE CREDIBILITY OF OFFICIAL REPRESENTATIONS. IT IS CLEAR IN THIS CONTEXT THAT IF DISCIPLINE AMONG U.S. TRADERS CANNOT BE ACHIEVED OR SUSTAINED THE SITUATION IS INTRINSICALLY HOPELESS. IN ADDITION, OUR INSTRUCTIONS HAVE SOUGHT TO PROMOTE ACCOMMODATIONS AND ADJUSTMENTS ON THE PART OF THE BUYER WITHOUT ANY SUGGESTION THAT THE SELLER MIGHT ABSORB SOME OF THE SHOCK. WE HAVE HAD TO BE VERY CAREFUL TO KEEP THIS ASPECT OF THE APPROACH FROM BEING MERELY OFFENSIVE. OUR BENT TO CAUTION ON THIS POINT IS REINFORCED BY THE LIKELIHOOD (WHICH WE UNABLE CONFIRM LOCALLY) THAT MANY IF NOT ALL OF THE CONTRACTS IN QUESTION HAVE SAVING CLAUSES OF ONE SORT OR ANOTHER RESPECTING PRICE AND QUANTITY, AND PROBABLY DELIVERY SCHEDULES. WE WOULD APPRECIATE MORE INFORMATION ON THIS POINT.

3. THE TREND OF THE FOREGOING IS OBVIOUS. IF WE ARE TO MAKE FURTHER REPRESENTATIONS, ESPECIALLY AT HIGH LEVELS, WE MUST DO SO WITH A REALISTIC EYE TO THE POSSIBLE. IT IS HIGHLY UNLIKELY THAT MARCOS CAN REACT FAVORABLY TO A REQUEST TO HONOR ALL EXISTING OVERDUE CONTRACTS, EVEN THOUGH HE WILL SEE THE VALUE OF REACHING A COMPROMISE WITH U.S. EXPORTERS THAT REDUCES OR AVOIDS CONGRESSIONAL IRRITATION, AND AVOIDS BLOT ON COUNTRY'S BUSINESS REPUTATION.

4. IF DEPARTMENT AGREES WITH FOREGOING APPRAISAL, WE BELIEVE BEST NEXT STEP IS TO PUT THE REALITY OF THIS PROBLEM SQUARELY TO U.S. EXPORTERS. WE CAN SUPPORT THEIR EFFORTS TO REACH SATISFACTORY COMPROMISE A GREAT DEAL MORE EFFECTIVELY AND WITH MUCH HIGHER PROSPECTS OF SUCCESS THAN TAKING UP THE CUDGEL FOR THE SANCITY OF CONTRACTS WITHOUT KNOWING WHAT TERMS, CONDITIONS AND EQUITIES WE MAY BE DEFENDING, OR PARTICULARLY WITHOUT KNOWING WHICH EXPORTER NEXT WILL BREAK RANKS AND UNDERCUT THE WHOLE EFFORT WITH A NEW DEAL.  
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